# Solvency and Financial Condition Report
## 2021

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## Director's Report
British Friendly Society Limited

**Approval by the Board of Directors of the Solvency and Financial Condition Report**

Financial period ended 31 December 2021

We certify that:

The Solvency and Financial Condition Report ("SFCR") has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations; and we are satisfied that:

a) throughout the financial year in question, the Society has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the Society; and
b) it is reasonable to believe that, at the date of the publication of the SFCR, the Society has continued so to comply, and will continue so to comply in future.

**Stuart Purdy (Chairman)**

Date: 25/03/2022

# Solvency and Financial Condition Report
# 2021

## Summary

The Society was founded in 1902 to provide sickness benefits for commercial travellers and their families. We are one of the larger Friendly Societies with over 31,000 members across the UK and £63m in assets. The principal activity of the Society is to provide sickness cover for its members in times of illness or injury. After paying sick pay and expenses, any surplus is invested for the benefit of the members in accordance with the Society's investment policy as determined by the Board of the Society. As a Mutual, the Society exists solely for the benefit of its members and has no shareholders to whom we need to pay dividends. One of the ways that the Society looks to provide additional benefit to members is through the Mutual Benefits programme. The Mutual Benefits programme provides access to resources and support for members and their families at no additional cost. In 2021 the Society reviewed the Mutual Benefits programme and in 2022 will be increasing the health services offered to members through the partnership with Square Health. This will include increased digital GP consultations, second medical opinions, mental health support, physiotherapy and health MOTs.

The core business of the Society is the provision of Income Protection insurance products. Until 2011, insurance policies were mainly of a 'Holloway' type with a capital element building up over time through the payment of interest and apportionment bonuses. The Society has over 6,600 Holloway members of which over 2,300 commuted their sickness benefits at age 60, but retain their capital balances with the Society, earning annual bonuses and may receive a final, or terminal, bonus currently 12.5% on withdrawal of their funds. Through its BFS Protect product, the Society has been successful in establishing itself as one of the leading providers of Income Protection for working people and had an overall membership of over 31,000 members of December 2021. BFS Protect policies generate 79% of total premium income and account for 79% of overall membership. The Society also offers Breathing Space, a policy which does not require financial underwriting and is designed for the self-employed market.

The Society provides loans to members with a capital account up to 85% of the value of their accounts and secured against the capital account balance. This service is provided through a subsidiary company, BFS Member Services Limited (separately authorised by the FCA).

Our ongoing Own Risk Solvency Assessment process demonstrated that the Society has had a comfortable margin of capital resources over the Solvency Capital Requirement as required under the provisions of Solvency II regulation. The Board remain satisfied that the Society has a capital position that is appropriate for an insurance business of its size and complexity.

# A. Business Performance

## A1. Business

British Friendly Society is incorporated under the Friendly Societies Act 1992 under registration number 392F. The Society is a friendly Society owned 100% by its members. Each of the Society's members is entitled to one vote at the Annual General Meeting or on resolutions requiring member votes. There are no other persons or entities with an ownership interest in the Society. The Society's principal activity is the provision of Income Protection insurance to its members. The Society carries out its business within the United Kingdom. The Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) are responsible for the financial supervision of the Society.

PRA
20 Moorgate
London
EC2R 6DA
020 7601 4444

FCA
12 Endeavour Square
London
E20 1JN
Phone: 020 7066 1000

The statutory auditor of the Society is:

J Perry
BDO LLP
55 Baker Street, London
W1U 7EU

## A2. Underwriting Performance

Underwriting performance is reflected in the difference between the premiums received against the claim payments made to members. The table below shows the premiums and claims by product type and movement against the prior year:

| | 2021 £000 | 2020 £000 | Mvt (%) |
|---|---|---|---|
| Protect premiums | 9,068 | 8,804 | 3% |
| Holloway premiums | 2,346 | 2,601 | -10% |
| **Total premiums earned** | **11,414** | **11,405** | **-** |
| Protect claims | (4,767) | (5,175) | -8% |
| Holloway claims | (321) | (412) | -22% |
| **Total claims incurred** | **(5,088)** | **(5,587)** | **-9%** |
| **Net underwriting surplus** | **6,326** | **5,818** | **9%** |

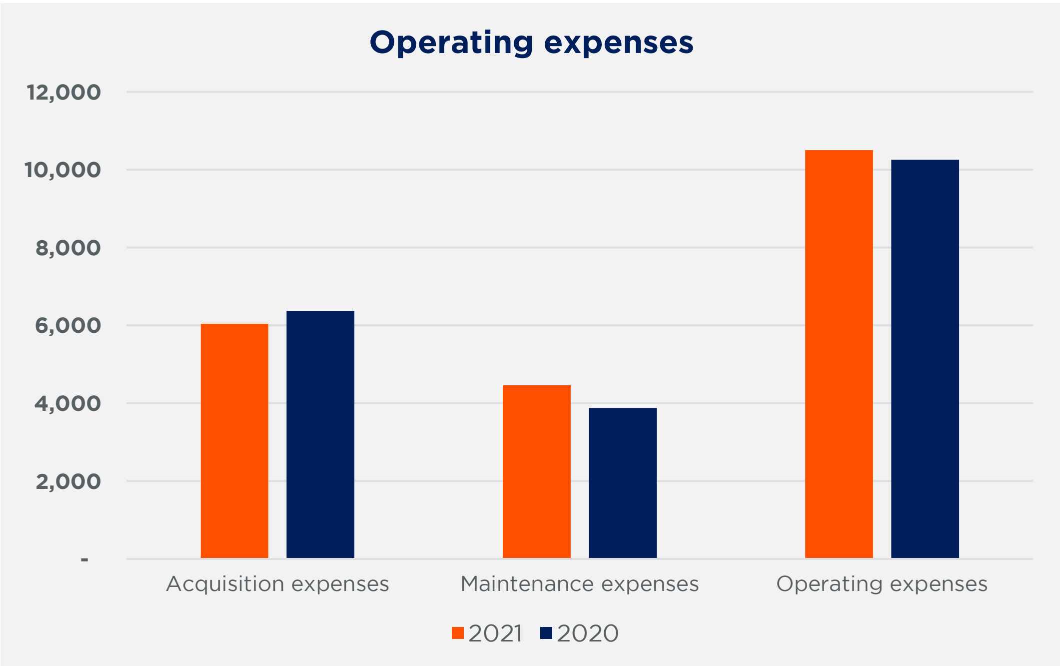
**New Business**

The Society's membership consists of Protect members and members who hold a 'Holloway-style' product. The 'Holloway-style' products are not actively promoted and the number of members has been falling for many years. The number of 'Holloway-style' members reduced in 2021 from 7,108 to 6,607. The number of Protect members has significantly increased in recent years but in 2021 the membership fell from 26,000 to 24,494 due to a reduced volume of new business sales during the pandemic. In 2022, we aim to grow the Protect membership once again through the product and proposition development we have undertaken as well as the flexibility our new technology brings regarding our products and services.

**Claims**

Providing financial support to members at their time of need is the reason for our existence. We expect to receive new claims every year and every claim has a cost. If more members are unable to work than expected or members claim for longer than expected, then the Society becomes financial weaker. The Society continually monitors and reviews the volume of new claims and the reasons that members are unable to work. Active claims management is a key function in the Society as we support members financially and support their recovery and rehabilitation. In 2021 the Society approved over 1,100 new claims and paid a total of £5m (£5.6m in 2020). The reduction in the numbers of claims paid is due to a fall in the Society's membership, the benefit of active claims management supporting members back to work and the government's financial support for members impacted by the global pandemic. The Society is proud of its long-term record of paying a high proportion of the claims it receives.

The chart below shows operating expenses incurred by the Society in 2021 and 2020. Acquisition expenses decreased in 2021 principally due to writing a lower level of new business.




## A3. Investment Performance

The Society employs professional investment managers to manage its portfolio of investments under a conservative investment mandate. The relationship is managed on a day-to-day basis by the Society's Executive team and governed by the Risk and Investment committee.

The Society's portfolio is invested in a mixture of:

1. Government and corporate fixed interest debt
2. Equities and hedge funds
3. Property funds/Unit trusts
4. Freehold property

| Investment returns | 2021 £000 | 2020 £000 | Mvt % |
|---|---|---|---|
| Investment income | 2,755 | 1,459 | 89% |
| Unrealised gains on investments | 1,642 | 1,960 | -16% |
| Unrealised losses on investments | (1,461) | (385) | -279% |
| Investment expenses | (143) | (154) | 7% |
| **Net investment income** | **2,793** | **2,880** | **-3%** |

| Investments | 2021 £000 | 2020 £000 | Mvt % |
|---|---|---|---|
| Government securities | 11,458 | 11,950 | -4% |
| Corporate bonds | 17,605 | 18,571 | -5% |
| Unit trusts | 376 | 1,018 | -63% |
| Equities | 7,122 | 14,970 | -52% |
| Investment properties | 6,290 | 5,690 | 11% |
| Secured mortgages | 23 | 30 | -23% |
| Loans to members | 287 | 402 | -29% |
| Cash and cash equivalents | 8,730 | 5,082 | 72% |
| **Total investments** | **51,891** | **57,713** | **-10%** |

We invest our assets in order to provide a stable return to our members whilst putting capital preservation at the heart of the investment strategy. Investment returns for 2021 were impacted by the global volatility in investment markets and the overall investments value decreased by 10%. In 2021 investment funds were also used to finance the Society's technology investment in the new administration and new business platforms. The new technology platforms provide the foundations and capabilities to support members today and into the future.

The Society considers both current returns and longer-term trends when considering the level of bonus rates set for its 'Holloway' type members who have accumulated capital account balances. Despite a period of low investment returns in 2021, the Board agreed that we should continue to pay bonuses on members' capital balances, although they decided that it was prudent to adjust the Annual Interest Bonus. The Annual Interest Bonus earned on members' capital balances was moved to 0.50% (2020: 0.75%). The Apportionment Rate applied to members' capital balances was unchanged at £1.68 for commuted members and £1.08 for non-commuted members and the Final Bonus to be applied to the value of commuted members' capital accounts on withdrawal has been increased to 12.5% in recognition of the positive trading returns from the Holloway-style members.

## B. System of Governance

### B1. General Information on the system of governance

British Friendly Society Limited is led by a Board who are responsible for promoting the long-term sustainable success of the Society and generating value for current and future members. The Board's role is set out in the Memorandum and Rules of the Society and delegates some authority through its three main sub-committees:

- Audit and Compliance
- Risk and Investment
- Remuneration and Nomination

Full details of the responsibilities of the Board and its committees are set out in a Responsibilities Map and Terms of Reference. There is a clear division of responsibilities between the roles of Chairman and Chief Executive, and they are held by different individuals. Each has their specific roles and responsibilities. The Chairman is primarily responsible for the effective running of the Board and for ensuring full and constructive participation of all Board members in discussions and the decision-making processes within the remit of the Board. The Chief Executive is responsible for the executive management of the Society within specific guidelines established by the Board. The Board comprises the Chair of the Board, who is an Independent Non-Executive Director, six other Non-Executive Directors (of which one is a Senior Independent Director) and one Executive Director. The Board remains satisfied with the independence of Non-Executive Directors.

The Remuneration Policy is designed to attract and retain personnel of the calibre, skills and values required to deliver the objectives and strategy of the Society. It adopts the following key principles:

- The Policy will be to promote fair and transparent remuneration structures and are aligned to the long-term sustainable success of the Society
- Remuneration is aligned with applicable regulatory and statutory requirements
- Remuneration will promote sound and effective risk management
- Fixed and variable remuneration will be appropriately balanced with arrangements designed to align the interests of employees with those of members
- Variable remuneration will be based on a combination of the assessment of the individual and the collective performance and overall results of the Society
- The Society is an inclusive employer and is committed to ensuring that all of its people are remunerated fairly. Whilst the Society is not currently obliged to publish any gender pay calculations relating to diversity, it intends to take steps to monitor equality and reduce or eliminate any pay gap where applicable

### B2. Fitness and propriety requirements

The Society subjects all individuals considered for appointment to a Senior Managers Function or identified as a Certified role to determine honesty, competence, and capability as well as financial soundness. The following factors are considered when assessing an applicant for a relevant appointment:

a. The probity of the individual as judged during the recruitment process
b. The reputation of the individual as judged from a review of public media
c. The individual's financial soundness as judged from credit reference reports obtained by the Society.

d. Regulatory references (pertaining to the last six years)
e. Any information obtained during the criminal record checks

In addition, an assessment of competence considers whether an individual

a. Has the personal characteristics of good repute and integrity
b. Possesses the level of competence, knowledge and experience
c. Has relevant qualifications to carry out their role
d. Has undergone or is undergoing all training, required to enable such person to perform their role effectively and in accordance with any relevant regulatory requirements, including those under the regulatory system, and to enable sound and prudent management of the firm

Holders of Senior Manager Functions or a Certified role are also required to confirm that they continue to satisfy regulatory standards by completing an annual declaration of continued fitness and propriety. In addition, the Society also assesses the ongoing fitness and propriety of approved persons.

### B3. Risk Management Framework including the own risk and solvency assessment

The Society's Risk Management Framework sets the approach for risk management and is complemented by risk management policies which have been approved by the Society's Board. The Society's Risk Management Framework is designed to provide coverage over the principal risks: Financial, Insurance, Conduct, Operational, Reputational and Strategic. It also provides consideration of new and emerging risks, including those posed from climate change. The Society's Risk Appetite contains statements and metrics that have been approved by the Board and support how principal risks which impact the Society and the strategic objectives are managed. These risks are linked to the risk register and reported to the Board via the Risk and Investment Committee. This provides oversight of the Society's risk exposure, risks to strategic objectives and actions taken to manage such risks. The Board's risk appetite statements are regularly reviewed by the Risk and Investment Committee and covers the key risks that the Society is exposed to.

The Society continues to enhance the three lines of defence model used within its business, which ensures segregation, accountability, oversight, assurance and transparency in managing risk across the Society.

The first line of defence is comprised of the member facing areas and operational support functions such as Finance, IT and HR. The first line, led by the Chief Executive and supported by the management team is responsible for the day to day running of the Society, identifies risks and escalates any risk events to the second line of defence.

Second line of defence is made up of Risk and Compliance. These functions are led by the Risk and Compliance Director and ensure the first line are appropriately managing risk and conforming with regulatory requirements. Risk and Compliance also provide oversight and challenge through policies, frameworks, tools, and techniques.

The third line of defence provides objective and independent assurance to the Board ensuring the first and second lines of defence are operating effectively. The outsourced Internal Audit function reviews and reports on systems of risk management and internal controls to the Audit & Compliance Committee.

The Society, through its Own Risk and Solvency Assessment (ORSA), continuously assesses the adequacy of its solvency requirements specific to the risk profile, risk tolerance limits and the business strategy which facilitates decision making and strategic analysis. During 2021 the Society has conducted stress testing and undertaken scenario analysis in order to ascertain the current and projected solvency positions under normal and severe, yet plausible, scenarios, both individually and combined. This allows the Society to fully understand the material risks it faces and consider mitigating actions.

### B4. Internal control system

Internal controls are used to manage the risks facing the Society within the defined risk tolerance levels agreed by the Board. The controls set through policies, frameworks and procedures are established and embedded within the first line of defence. The effectiveness of the Society's internal control environment is assessed through monitoring, second line of defence reviews and internal audits.

There is a compliance function independent of business areas responsible for advising the Board on compliance (including changes) to regulations, and other laws, regulations and administrative provisions adopted in accordance with the Solvency II Directive.

### B5. Internal audit function

The Society has an internal audit function which has been recognised as a key function. The performance of the Internal Audit is outsourced to a firm independent of the Society which reports directly to the Chair of Audit and Compliance Committee. The internal auditors have the independence and authority to challenge management on internal controls and risk management.

### B6. Actuarial function

The Society outsources its actuarial function who report to the Society's Board. The Chief (and With-Profits) Actuary is responsible for the adequacy and quantification of capital requirements and technical provisions under Solvency II including appropriateness of the methodologies, models, assumptions, and data used.

### B7. Outsourcing

The Society outsources the following Solvency II activities: Internal Audit and the Actuarial function. There are Terms of Engagement in place for both outsourcing arrangements with clear responsibilities for performance of the functions. The Board of the Society retains ultimate responsibility for ensuring that these services are provided in accordance with the Solvency II Directive. There are contracts in place with both these providers to ensure that the services are provided in accordance with the Solvency II Directive.

In addition, the Society also outsources the provision of its technology services and information security guidance and monitoring. The Society also outsources its investment management activities. All of the outsourced activities are subject to robust oversight and controls, including contractual protections.

# C. Risk Profile

## C1. Summary of current risk profile

The Society's primary business involves taking on risk for its members through Income Protection policies. There are three main types of risks that are inherent to the Society's business model.

- Insurance risks: this includes morbidity (sickness), persistency (lapsing of policies) and expense risk
- Operational and business risks: this includes losses incurred as a result of inadequate processes, people and systems, changes in the regulatory environment, external risks and risks associated with achieving our strategic objectives
- Financial risks: These include lower than expected returns or defaults arising from investments due to market fluctuations and the risk of not being able to make payments when they fall due.

Risks are grouped by risk type and aligned to the principal risks which have been approved by the Board. Risks are identified on a regular basis, using a range of techniques including internal and external trend monitoring, risk events analysis and management information.

## C2. Risk measuring and monitoring

The Society has identified its overall appetite for risk and expressed this in terms of its solvency position. Where applicable, risks are measured against the impact to the Solvency II Solvency Capital Requirement (SCR) and ratio of own funds to SCR (Solvency cover ratio). In addition to the minimum solvency requirement defined by the prevailing regulatory environment, the Society has determined a minimum level of additional solvency required at all times, its risk tolerance. This is set by the Board as a key component of, and constraint upon, the strategic plan.

At 31 December 2021, the Society had £11.4m of surplus funds (own funds less SCR). The Society also uses the SCR and Solvency cover ratio as a basis to measure and monitor the sensitivity of its assets to certain key risks by stress and scenario testing through its valuation model. These are reported on an annual basis and included in the ORSA as key drivers of the Society's risk appetite.

The Society uses a range of mitigation techniques to reduce and manage its risk exposures including the use of internal controls, limits, asset liability matching and cashflow planning.

## C3. Risk concentration

The Society offers different products and product options to suit the needs of members. The Society has a diverse member base with regard to age, occupation, and geographical location. The Society uses a number of additional techniques and limits to manage concentration exposure including holding a diverse investment portfolio with differing asset classes and durations to reduce exposure to credit, liquidity and interest rate risk.

## C4. Insurance risk

Insurance risk relates to actual experience differing from assumptions, which are used to calculate premium amounts. Assumptions such as claims and lapses, including their timings, occurrence and amounts differing could have an impact on our expenses and solvency.
Our underwriting and claims processes and controls are designed to mitigate the inherent insurance risk. We conduct experience analysis to assess the impact of from material variances identified. We also have monitoring processes in place to identify potential changes in exposure.

## C5. Operational risk

Operational risk is the risk of direct or indirect loss arising from business operations including failed internal processes, people, and systems, including external risks. Operational risks are assessed through the risk control assessment process which includes an assessment of the design and operational effectiveness of controls and the impact to the residual risk. Exposure is managed through implementation of policies and frameworks which set the control requirements for management of operational risk. As operational risks cannot be fully mitigated, the Society has limited appetite for accepting exposure to operational risk events.

## C6. Financial risk

Due to the nature of the Society's investments, the Society incurs three main types of financial risks – market, credit, and liquidity.

Market risk arises from unexpected movements or volatility within the financial markets resulting in lower than anticipated returns. Exposure is managed by holding a diverse investment portfolio which is managed by experienced investment managers within a Board approved investment mandate. The Society further limits exposure by not investing in structured or complex products.

Credit risk arises due to the default or failure of a third party in meeting their payment obligations resulting in financial loss. Exposure is managed through our investment mandate and credit control processes.

Liquidity risk arises from the inability to make payments as they become due as a result of insufficient assets in a liquid form. This risk is managed through the investment holdings in our investment mandate and regular cashflow forecasting.

## C7. Investment Assets

The Society ensures that all assets are invested with the prudent person principle. All assets included in the table set out in D1 have been invested in accordance with the prudent person principle, such that the Society only invests in assets where the Society can properly identify, measure, monitor, control and report and appropriately take into account in the assessment of its overall solvency calculations. Investment assets are managed by external investment managers within the remit of the Board approved investment mandate. Investment performance is regularly monitored and reported through the Risk and Investment Committee.

## C8. Climate Change

Through the Society's business model, strategies and practices, the exposure to financial risk arising from climate change is limited, primarily driven by our sustainable approach to investing and investment holdings. Working with our investment management partners and other stakeholders, we are committed to promote sustainability and reduce the impact on the environment.

Whilst physical risks arising from climate change are not expected to fully crystallise for a number of years, such as longevity, morbidity, and mortality to which the Society is exposed, we continue to monitor experience over time.

The Society has limited exposure to asset transition risks due to its sustainable investment portfolio and composition of investments. As a result of this, litigation risks that could arise from parties who have been adversely impacted from climate change is also limited. We regularly review our portfolio sustainability ratings and have agreed parameters through our investment mandate to promote sustainable investing.

To reduce our carbon footprint and the impact to the environment, the Society is decarbonising its operations and supply chain. These initiatives include reduction of paper by utilising digital technology, reducing travel emissions by promoting flexible working and working with our suppliers to increase energy efficiency and sustainability.

## C9. Other Information

As a result of the coronavirus pandemic, the Society's working practices have changed and the majority of colleagues now work remotely. Associated risks are monitored and managed to prevent disruption or harm to the Society or its members. The Society continues to monitor and respond to risks arising from the pandemic whilst continuously assessing post-COVID emerging risks and the impact on the Society, its members and employees.

**The Board is responsible for the delivery of risk management and controls. Detailed below are the Society's principal risks and mitigating actions**

| Risk and Description | Mitigating Actions |
|---|---|
| **Financial Risk:** This comprises of credit, market and liquidity risks and can materialise due to adverse movements in the financial markets, downgrading or default of a creditor, reduced investment income or the inability to meet financial obligations as they fall due | The Society manages credit and market risk by defining agreed parameters and trigger points established through an investment mandate with its investment managers. Performance of the investment portfolio is regularly monitored and management are made aware of any deviations.<br>Investment credit exposures are managed by investing in high credit quality assets and ongoing monitoring and management support loss mitigation.<br>Distributor credit risk is managed through the setting of financial limits and monitored using internal and external information.<br>The Society also undertakes budgetary planning and cash flow matching to ensure sufficient funds are readily available over the short and medium term to fulfil financial obligations as they fall due. |
| **Insurance Risk:** This risk relates to the risks transferred to us by our members. Insurance risk considers the uncertainties that arise from mortality, morbidity and persistency and could crystalise if the cost of claims and benefits exceed the amount of premium and investment return received. Included within this risk is concentration and expense risk. | The Society has processes and controls to assess the risk of new business through its product design, pricing, and underwriting processes. Existing business insurance risks such as claims and lapses are monitored against thresholds and assumptions. Monitoring by distribution channel, adviser and by product option to manage concentration risk and ensure good outcomes for our members.<br>This risk is also managed by our flexible approach which ensures we are able to adapt to changes or movements in the intermediary market to aid our risk exposure. |

| Risk and Description | Mitigating Actions |
|---|---|
| **Conduct Risk:** This risk considers action that could result in adverse member outcomes resulting from the Society's actions including ineffective controls. | The Society is committed to drive the right culture, behaviours, and values to deliver the best outcomes for our members and exceed regulatory expectations. This risk is monitored through the use of key indicators and managed through actions. |
| **Operational Risk:** This risk considers direct or indirect loss arising from failures from our people, processes, or systems. Included in this risk are legal, regulatory, third party, resilience, data, and cyber risks. | The Society has processes and controls in place to minimise the impact and/or likelihood of adverse operational events.<br><br>The Society also conducts regular reviews of risk management and control effectiveness and is transitioning to proactive monitoring. This will enable the Society to take preventative action and further reduce operational risk exposures |
| **Reputational Risk:** This risk relates to actions that could reduce trust or confidence of the Society's integrity, values or operations, resulting in either loss of members and/or financial loss, including regulatory censure. | The Society manages this risk by embedding our values with our people and regularly reviews stakeholder satisfaction. This includes member, third party and satisfaction from our people. This risk is continuously monitored to understand where the Society's processes can be optimised for effectiveness, efficiency and to identify emerging risks. |
| **Strategic Risk:** This risk considers failed business decisions which have an impact on executing our strategy or meeting strategic objectives within the prescribed timescale. This also includes risks associated with climate change and sustainability. | The Society's strategy plans are clearly defined and regularly reviewed, taking into account internal and external factors. This risk is monitored through a suite of agreed metrics. The Society consists of an experienced management team who aligned with and measured against delivery of the strategic objectives. The Society's Board receive regular updates on the execution of the strategic plan. |

# D. Valuation for Solvency Purposes

## D1. Assets

The value of the assets is shown in the following table:

| £000s | 31/12/2021 | 31/12/2020 |
|---|---|---|
| Property | 6,290 | 5,690 |
| Equities | 7,122 | 14,970 |
| Government bonds | 11,458 | 11,950 |
| Corporate bonds | 17,605 | 18,571 |
| Collective investment undertakings | 376 | 1,018 |
| Loans and mortgages | 311 | 432 |
| Any other assets | 10,912 | 7,052 |
| **Total** | **54,074** | **59,683** |

The listed investments are all included at market value. The property portfolio is fully revalued every three years with a desktop valuation in the intervening years so that changes in market value can be taken into account. Cash and deposits are valued at face value. The Society does not hold listed investments which are not held on an active regulated market. The Society has no leasing arrangements or material deferred tax assets. The Society has no related undertakings.

There have been no changes to approach to valuation and no significant exercise of judgement in arriving at the values shown. The assets are shown at the same value as the values in the financial statements subject to adjustments in respect of deferred acquisition costs and intangible assets. The following table reconciles the differences.

| £000s | 31/12/2021 | 31/12/2020 |
|---|---|---|
| Value of assets presented in financial statements | 62,491 | 68,762 |
| Less Deferred acquisition costs | 2,530 | 4,334 |
| Less Intangible assets | 5,887 | 4,710 |
| Less Software element of tangible assets | - | 35 |
| **Solvency II value of assets** | **54,074** | **59,683** |

## D2. Technical Provisions

The following table summarises the technical provisions as at 31 December 2021 and 31 December 2020.

| £000s | 31/12/2021 | 31/12/2020 |
|---|---|---|
| Best estimate liabilities | 13,168 | 13,016 |
| Risk margin | 8,528 | 10,419 |
| **Technical provisions** | **21,696** | **23,435** |

All the Society's liabilities relate to health (Similar to Life) business.

**Valuation Methods**

The following paragraphs detail the methodology adopted for the Solvency II valuation as at 31 December 2021 for the following specific components of the Society's business:

a) valuation of all the Society's Holloway and Income Protection income and liability cashflows
b) valuation of Holloway members' accounts and allowance for interest, apportionment and final bonuses
c) valuation of sickness claims in payment
d) IBNR (incurred but not reported)
e) negative reserves
f) valuation of individual policies
g) allowance for expenses
h) reinsurance
i) currency exposures
j) options and guarantees
k) discount rates

**Valuation of Holloway and Income Protection income and liability cashflows**

The Society adopts a gross premium methodology approach to the valuation of each of its contracts of insurance. This means that we project, for each individual contract on the Society's books, net cashflows out of the Society every single month into the future as follows.

**Net cash flow each month =**

Expected monthly sickness payment (not relevant for commuted Holloway contracts) assuming all policyholders are healthy at the date of valuation:

(+) Expected monthly maturity and withdrawals on Holloway commuted and non-commuted accounts allowing for future rates of interest and apportionment bonuses

(+) Monthly cost of maintenance and investment expenses allowing for future expense inflation

(-) Expected future monthly premiums payable

Each monthly projected net cashflow is then discounted back to the valuation date at an assumed discount rate of interest. A positive value represents a liability to the Society; a negative value represents an asset to the Society.

**Valuation of Holloway member accounts and allowances for interest, allocation and final rates of bonus**

The Society had accrued £48,621,743 in member capital accounts at the end of 2021 (including the 2021 declared bonus). These are all linked to 'Holloway' type contracts of insurance.

This amount is guaranteed to be payable on maturity or earlier on death. The Society applies its discretion in the amount it pays in the event of withdrawal before maturity. A final bonus may also be paid on maturity or earlier death at the discretion of the Society.

Each year these benefits are increased by both an interest bonus, in respect of investment returns over the year, and an apportionment bonus in respect of the Society's favourable sickness experience (akin to a bonus equal to premiums less claims less expenses).

The value of these accounts is equal to the discounted value of the expected future amounts payable on these accounts allowing for future rates of interest, apportionment, and final bonus. Expected future interest is allowed for at the Society's long-term sustainable rate equal to half the discount rate of return less 0.75%; future apportionment and final bonuses are assumed to be paid at the long-term sustainable levels.

**Valuation of sickness claims in payment**

Additional reserves are held to cover all Income Protection claims in payment at the valuation date based on the discounted value of all future sickness cashflows expected to arise from the current sickness.

**Incurred But Not Reported (IBNR)**

An additional reserve is held to cover the value of claims where policyholders have fallen sick but where they have not reported that fact to the Society (or they have reported the claim but it has yet to be admitted by the Society). This calculation is based on the annual average of the last 3 years' sickness claims experience.

**Allowance for expenses**

Expenses are allowed for in the valuation of the Society's liabilities by a per policy charge. This is assumed to be incurred monthly and covers each policy's share of the maintenance and investment related expenses of the Society. The calculation of each policy's share of these costs allows for the expected volumes of new business the Society expects to write. Expected maintenance and investment related expenses and new business volumes are set by the Society's strategic plans until 2025.

**Reinsurance**

The Society has a small reinsurance arrangement but this is trivial in nature and so the valuation has been undertaken on the basis that the Society does not have any reinsurance arrangement in place.

**Currency**

The Society's liabilities are all denominated in GBP.

**Options and guarantees**

None of the Society's contracts has any material options or guaranteed surrender values in place at 31 December 2020 or 31 December 2021.

**Discount rates**

All the Society's cashflows are discounted at the required risk-free rates of interest set by the PRA as at 31 December 2021.

**Key assumptions used in the valuation of best estimate liabilities**

Assumptions need to be made for:

a) sickness inception and recovery rates
b) mortality rates
c) lapse and withdrawal rates
d) expense inflation
e) rate used to discount future cashflows

**Sickness rates**

The Society's sickness experience has been analysed both by the rate of inceptions and by rates of recovery and are split between Holloway-style contracts (Holloway and Century) and the Society's pure Income Protection business (Protect and Breathing Space). The inceptions and recoveries are explicitly allowed for in the cash flow methodology. The sickness tables used are based on the industry standard "CMIR12" tables. The assumed rates of sickness used at the end of the relevant financial year, expressed as a percentage of CMIR12 rates, are set out below:

Holloway and Century

| Assumption | 31/12/2021 | 31/12/2020 |
|---|---|---|
| Inception rates – age | | |
| Up to age 20 | 10% | 10% |
| 20-24 | 20% | 20% |
| 25-29 | 30% | 30% |
| 30-34 | 40% | 40% |
| 35-39 | 50% | 50% |
| 40+ | 65% | 65% |
| Recovery rates | | |
| 0-4 weeks | 80% | 80% |
| 4-8 weeks | 90% | 90% |
| 8-13 weeks | 125% | 125% |
| 13 weeks+ | 190% | 190% |

Females are assumed to incept at a rate 30% (2020: 30%) higher than the figures stated above.

BFS Protect and Breathing Space

| Assumption | 31/12/2021 | 31/12/2020 |
|---|---|---|
| Inception rates | 35% | 35% |
| Recovery rates | | |
| 0-4 weeks | 35% | 35% |
| 4-8 weeks | 65% | 65% |
| 8-13 weeks | 65% | 65% |
| 13-104 weeks | 165% | 165% |
| 104+ weeks | 200% | 165% |

Female inception rates are assumed to be the same as for males (2020: same assumption).

## Mortality

The rates of mortality assumed to apply to the Society's business are split between the Holloway and Century non-commuted and commuted policyholders, as well as the Society's Protect and Breathing Space policyholders. The assumed rates of mortality used at the end of the relevant financial year are set out below:

| Assumption | 31/12/2021 | 31/12/2020 |
|---|---|---|
| Holloway and Century non-commuted | 45% AMF92 | 45% AMF92 |
| Holloway and Century commuted | 60% AMF92 | 60% AMF92 |
| Protect and Breathing Space | 45% AMF92 | 45% AMF92 |

## Lapse and withdrawal rates

The rates of lapse and withdrawal assumed to apply to the Society's business are split between the Holloway and Century non-commuted and commuted policyholders, as well as the Society's Protect and Breathing Space policyholders. The assumed rates of lapse and withdrawal used at the end of the relevant financial year are set out below.

| Assumption | 31/12/2021 | 31/12/2020 |
|---|---|---|
| Holloway and Century non- commuted | 5.00% pa | 5.00% pa |
| Holloway and Century commuted | 5.00% pa | 5.00% pa |
| Holloway and Century commutation rate[1] | 40.00% | 40.00% |
| Protect (by duration in-force) | | |
| Year 1 | 15.00% pa | 15.00% pa |
| Year 2 | | |
| Year 3 | | |
| Year 4 | | |
| Year 5 | | |
| Year 6+ | 12.50% pa | 12.50% pa |

1. This represents the proportion of policyholders who are assumed to exercise a right to commute their policy on retirement.

## CFI (Cancelled from Inception) rates

The CFI rates are assumed to apply to the Society's Protect business:

| Assumption | 31/12/2021 | 31/12/2020 |
|---|---|---|
| Month 1 | 8% | 7% |
| Month 2 | 2% | 6% |
| Month 3 | 2% | 5% |
| Month 4 | 2% | 4% |
| Month 5 | 2% | 2% |
| Month 6 | 0% | 0% |

**Expense inflation**

Per policy expenses are assumed to increase at the following rates:

| Assumption | 31/12/2021 | 31/12/2020 |
|---|---|---|
| Expense inflation rate % pa | 3.10% pa | 3.10% pa |

**Rate used to discount future cashflows**

The Solvency II risk free yield curve as specified by the PRA at the end of the relevant financial year has been used. Example spot rates are shown below.

| Projection year | 1 | 2 | 3 | 4 | 5 | 10 | 15 | 20 | 25 |
|---|---|---|---|---|---|---|---|---|---|
| 31 December 2021 | 0.76% | 1.01% | 1.08% | 1.08% | 1.05% | 0.95% | 0.91% | 0.88% | 0.85% |
| 31 December 2020 | -0.11% | -0.08% | -0.02% | 0.04% | 0.08% | 0.29% | 0.42% | 0.47% | 0.48% |

**Valuation of the risk margin**

The risk margin is the additional premium, over and above the best estimate, that another insurer might need in order to take on those liabilities. This value is a formulaic calculation prescribed by the Solvency II regulations based on the value of risk inherent in the insurance contracts written by the Society.

To calculate a full risk margin would involve projecting the Society's balance sheet and SCR calculation for 60 years. In view of the onerous nature of this task there are five permitted simplifications and Societies may choose the most appropriate simplification having regard to the scale and complexity of their business. The Society has chosen simplification 2 which means that each element of the SCR is projected separately in line with the key risk driver for the particular sub-risk being considered.

The amount of the SCR that is projected is based on a reference undertaking with no market risk.

The loss absorbing capacity of technical provisions assumed in the reference undertaking is assumed to be same as that currently assumed to apply for the Society's business. The same future management actions are assumed.

The total amount of the risk margin at 31 December 2021 is £8,528,267 (2020: £10,419,071). This all relates to health (Similar to Life) business.

**Differences with financial statements**

The Society prepares its financial statements using UK generally accepted accounting principles (UK GAAP). The derogation contained in Article 9 of the Solvency II Directive allows firms the option of recognizing and valuing assets and liabilities under UK GAAP for Solvency II purposes as long as certain conditions are fulfilled.

In accordance with supervisory statement SS 38/15 issued by the UK regulator "Solvency II: consistency of UK generally accepted accounting principles with the Solvency II Directive", the Society considers that these conditions have been fulfilled for the purposes of recognising and valuing assets and liabilities under UK GAAP for Solvency II purposes.

As noted above, the assets are shown at the same value as the values in the financial statements subject to adjustments in respect of deferred acquisition costs and intangible assets.  There are no material differences between the valuation of the liabilities for Solvency purposes and the values that will be shown in the financial statements.

**Other information**

There is uncertainty in that the calculation of technical provisions requires assumptions to be made about future experience which could turn out to be different. The key sensitivities are to future lapse, expense and sickness experience. There are no particular uncertainties associated with the methodology used to value the technical provisions.

No use has been made of a matching adjustment.

No use has been made of a volatility adjustment.

No use has been made of the transitional provisions for risk-free interest rates.

No use has been made of transitional deductions from technical provisions.

There are no material reinsurance arrangements in force.

## D3. Other liabilities

Other liabilities cover those due for payment within the next 12 months. Their value has been calculated in accordance with the Society's financial statements.

## D4. Alternative valuation methods

No alternative valuation methods have been employed.

## D5. COVID-19 pandemic

Over 2021 the impact of COVID-19 on the Society has been relatively limited, and has been considered in the 2021 experience analysis, and the recommended YE21 persistency and morbidity assumptions.

Therefore, the Society has considered that it is not necessary to make any additional provisions at the reporting date for COVID-19 claims.

## D6. Any other information

No other information is supplied.

# E. Capital Management

## E1. Own funds

The Society is an incorporated Society within the meaning of the Friendly Societies Act 1992. As such it has no shareholders and its members are the ultimate owners of the business. There is no defined mutual member fund.

The table below shows the amount of own funds at the valuation date.

| £000s | 31/12/2021 | 31/12/2020 |
|---|---|---|
| Assets | 54,073 | 59,683 |
| Best estimate liabilities | 13,168 | 13,016 |
| Risk margin | 8,528 | 10,419 |
| Current liabilities | 2,140 | 2,836 |
| **Own funds** | **30,237** | **33,412** |
| Solvency Capital Requirement (SCR) | 18,825 | 21,969 |
| **Surplus funds** | **11,412** | **11,443** |

The Society reviews, as part of its regular ORSA process, the current and likely future capital position of the business and whether there is a material risk that its solvency may be threatened. This is assessed over the Society's business plan time horizon which covers the period 2021 to 2025. In the event that the Society's projected solvency position is at risk, defined as not having sufficient capital resources to cover the Solvency Capital Requirement, then the Society will draw up appropriate plans to rectify that position. These plans will be appropriate to the Society's circumstances at the time but might include:

a) Taking such management actions as may be anticipated within its SCR calculations
b) Reviewing and refocusing its strategic objectives and priorities
c) Re-pricing its contracts of insurance
d) Reviewing its expense base, including potentially closing to new business
e) Seeking a transfer of engagements

The Society is a Friendly Society with a single members' fund and all capital is Tier 1.

The amount of Tier 1 own funds at the reporting date is £30,237,087. There are no restrictions on the use of own funds and this amount is available to cover the SCR and the MCR.

There have been no significant changes in own funds over the reporting period.

There are no material differences between the equity in the Society's financial statements and the free capital for solvency purposes. (Aside from the items noted in D1)

There are no items subject to a transitional arrangement.

There are no items of ancillary own funds.

There are no deductions from own funds and no restrictions on availability and transferability.

## E2. Solvency Capital Requirement and Minimum Capital Requirement

The Solvency Capital Requirement at 31 December 2021 was £18,825,066 after allowing for management actions and the Minimum Capital Requirement was £4,706,956. The Solvency Capital Requirement is subject to supervisory assessment.

The SCR split by risk module is shown below:

| £000s | 31 December 2021 | 31 December 2020 |
|---|---|---|
| | Management actions | Management actions |
| | Net | Net |
| Market risk | 404 | 205 |
| Counterparty default risk | 670 | 397 |
| Health risk | 18,081 | 21,357 |
| Diversification across all risks | (787) | (446) |
| **Basic Solvency Capital Requirement** | **18,368** | **21,512** |
| Operational risk | 457 | 456 |
| **Solvency Capital Requirement** | **18,825** | **21,969** |
| ***Minimum Capital Requirement*** | ***4,706*** | ***5,492*** |

The standard formula is used for all risk modules and there are no simplifications applied to the SCR calculation.

There are no undertaking-specific parameters used in the SCR calculation.

The MCR represents the minimum capital requirement that must be held in addition to the technical provisions and affords a minimum level of protection of a Solvency II firm's policyholders and beneficiaries; breaching the MCR is regarded as an unacceptable level of risk. It is calculated in a relatively simple manner with the formula based on technical provisions and capital at risk on death or disability, multiplied by specified factors. For many firms the floor, to which this calculation is subjected, exceeds the formula result and the MCR is set at 25% of the SCR (subject to an absolute floor (£3.13m at end 2021).

There has been no material change to the Solvency Capital Requirement or the Minimum Capital Requirement in the reporting period.

## E3. Duration-based equity risk sub-module in the calculation of the SCR

The Society does not use the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement.

## E4. Differences between the standard formula and any internal model used

The Society does not use an internal model.

## E5. Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The Society has complied with the Solvency Capital Requirement and the Minimum Capital Requirement throughout the reporting period.

## E6. COVID-19 pandemic

In 2020 a review was undertaken of solvency at a point below the lowest point markets reached. This provided comfort to the Society's Board that the Society was adequately covering its Solvency Capital Requirement and Minimum Capital Requirement. The Solvency Capital Requirement and Minimum

Capital Requirement of the Society in 2021 are lower than 2020.

### E7. Any other information

No other information is supplied.

# Disclosures

## General Information

| | |
|---|---|
| Undertaking name | British Friendly Society Ltd |
| Undertaking identification code | 2138007191E8L8M80Q28 |
| Type of code of undertaking | LEI |
| Type of undertaking | Life undertakings |
| Country of authorisation | GB |
| Language of reporting | English |
| Reporting reference date | 31 December 2021 |
| Currency used for reporting | GBP |
| Accounting standards | The undertaking is using local GAAP (other than IFRS) |
| Method of Calculation of the SCR | Standard formula |
| Matching adjustment | No use of matching adjustment |
| Volatility adjustment | No use of volatility adjustment |
| Transitional measure on the risk-free interest rate | No use of transitional measure on the risk-free interest rate |
| Transitional measure on technical provisions | No use of transitional measure on technical provisions |

## List of reported templates

S.02.01.02 - Balance sheet

S.05.01.02 - Premiums, claims and expenses by line of business

S.12.01.02 - Life and Health SLT Technical Provisions

S.23.01.01 - Own Funds

S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula

S.28.01.01 -Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

## Balance sheet

| | | Solvency II value |
|---|---|---|
| | **Assets** | C0010 |
| R0030 | Intangible assets | |
| R0040 | Deferred tax assets | |
| R0050 | Pension benefit surplus | |
| R0060 | Property, plant & equipment held for own use | 817 |
| R0070 | Investments (other than assets held for index-linked and unit-linked contracts) | 42,851 |
| R0080 | *Property (other than for own use)* | 6,290 |
| R0090 | *Holdings in related undertakings, including participations* | 0 |
| R0100 | *Equities* | 3,485 |
| R0110 | *Equities - listed* | 3,485 |
| R0120 | *Equities - unlisted* | |
| R0130 | *Bonds* | 29,063 |
| R0140 | *Government Bonds* | 11,458 |
| R0150 | *Corporate Bonds* | 17,605 |
| R0160 | *Structured notes* | 0 |
| R0170 | *Collateralised securities* | 0 |
| R0180 | *Collective Investments Undertakings* | 4,012 |
| R0190 | *Derivatives* | |
| R0200 | *Deposits other than cash equivalents* | 0 |
| R0210 | *Other investments* | 0 |
| R0220 | Assets held for index-linked and unit-linked contracts | |
| R0230 | Loans and mortgages | 311 |
| R0240 | *Loans on policies* | 0 |
| R0250 | *Loans and mortgages to individuals* | 311 |
| R0260 | *Other loans and mortgages* | |
| R0270 | Reinsurance recoverables from: | 0 |
| R0280 | *Non-life and health similar to non-life* | 0 |
| R0290 | *Non-life excluding health* | |
| R0300 | *Health similar to non-life* | |
| R0310 | *Life and health similar to life, excluding index-linked and unit-linked* | 0 |
| R0320 | *Health similar to life* | 0 |
| R0330 | *Life excluding health and index-linked and unit-linked* | 0 |
| R0340 | *Life index-linked and unit-linked* | 0 |
| R0350 | Deposits to cedants | 0 |
| R0360 | Insurance and intermediaries receivables | |
| R0370 | Reinsurance receivables | |
| R0380 | Receivables (trade, not insurance) | |
| R0390 | Own shares (held directly) | |
| R0400 | Amounts due in respect of own fund items or initial fund called up but not yet paid in | 0 |
| R0410 | Cash and cash equivalents | 10,096 |
| R0420 | Any other assets, not elsewhere shown | |
| R0500 | **Total assets** | 54,074 |

| | | Solvency II value |
|---|---|---|
| | **Liabilities** | C0010 |
| R0510 | Technical provisions - non-life | 0 |
| R0520 | *Technical provisions - non-life (excluding health)* | 0 |
| R0530 | *TP calculated as a whole* | |
| R0540 | *Best Estimate* | |
| R0550 | *Risk margin* | |
| R0560 | *Technical provisions - health (similar to non-life)* | 0 |
| R0570 | *TP calculated as a whole* | |
| R0580 | *Best Estimate* | |
| R0590 | *Risk margin* | |
| R0600 | Technical provisions - life (excluding index-linked and unit-linked) | 21,696 |
| R0610 | *Technical provisions - health (similar to life)* | 21,696 |
| R0620 | *TP calculated as a whole* | 0 |
| R0630 | *Best Estimate* | 13,168 |
| R0640 | *Risk margin* | 8,528 |
| R0650 | *Technical provisions - life (excluding health and index-linked and unit-linked)* | 0 |
| R0660 | *TP calculated as a whole* | 0 |
| R0670 | *Best Estimate* | 0 |
| R0680 | *Risk margin* | 0 |
| R0690 | Technical provisions - index-linked and unit-linked | 0 |
| R0700 | *TP calculated as a whole* | 0 |
| R0710 | *Best Estimate* | 0 |
| R0720 | *Risk margin* | 0 |
| R0740 | Contingent liabilities | |
| R0750 | Provisions other than technical provisions | |
| R0760 | Pension benefit obligations | |
| R0770 | Deposits from reinsurers | |
| R0780 | Deferred tax liabilities | |
| R0790 | Derivatives | |
| R0800 | Debts owed to credit institutions | |
| R0810 | Financial liabilities other than debts owed to credit institutions | |
| R0820 | Insurance & intermediaries payables | |
| R0830 | Reinsurance payables | |
| R0840 | Payables (trade, not insurance) | |
| R0850 | Subordinated liabilities | 0 |
| R0860 | *Subordinated liabilities not in BOF* | |
| R0870 | *Subordinated liabilities in BOF* | 0 |
| R0880 | Any other liabilities, not elsewhere shown | 2,140 |
| R0900 | **Total liabilities** | 23,837 |
| | | |
| R1000 | **Excess of assets over liabilities** | 30,237 |

**S.05.01.02**

## Premiums, claims and expenses by line of business
## Life

| | | Line of Business for: life insurance obligations | | Total |
|---|---|---|---|---|
| | | Health insurance | Insurance with profit participation | |
| | | C0210 | C0220 | C0300 |
| | **Premiums written** | | | |
| R1410 | Gross | 11,414 | | 11,414 |
| R1420 | Reinsurers' share | 0 | | 0 |
| R1500 | Net | 11,414 | 0 | 11,414 |
| | **Premiums earned** | | | |
| R1510 | Gross | 11,414 | | 11,414 |
| R1520 | Reinsurers' share | 0 | | 0 |
| R1600 | Net | 11,414 | 0 | 11,414 |
| | **Claims incurred** | | | |
| R1610 | Gross | 9,753 | | 9,753 |
| R1620 | Reinsurers' share | | | 0 |
| R1700 | Net | 9,753 | 0 | 9,753 |
| | **Changes in other technical provisions** | | | |
| R1710 | Gross | | | 0 |
| R1720 | Reinsurers' share | | | 0 |
| R1800 | Net | 0 | 0 | 0 |
| R1900 | **Expenses incurred** | 10,644 | 0 | 10,644 |
| R2500 | **Other expenses** | | | |
| R2600 | **Total expenses** | | | 10,644 |

S.12.01.02

## Life and Health SLT Technical Provisions

| | | Insurance with profit participation | Total (Life other than health insurance, including Unit-Linked) | Health insurance (direct business) | | | Total (Health similar to life insurance) |
|---|---|---|---|---|---|---|---|
| | | | | | Contracts without options and guarantees | Contracts with options or guarantees | |
| | | C0020 | C0150 | C0160 | C0170 | C0180 | C0210 |
| R0010 | **Technical provisions calculated as a whole** | | 0 | | | | 0 |
| R0020 | Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole | | 0 | | | | 0 |
| | **Technical provisions calculated as a sum of BE and RM** | | | | | | |
| | **Best estimate** | | | | | | |
| R0030 | **Gross Best Estimate** | | 0 | | -43,047 | 56,215 | 13,168 |
| R0080 | Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | | 0 | | | | 0 |
| R0090 | Best estimate minus recoverables from reinsurance/SPV and Finite Re | 0 | 0 | | -43,047 | 56,215 | 13,168 |
| R0100 | **Risk margin** | | 0 | 8,528 | | | 8,528 |
| | **Amount of the transitional on Technical Provisions** | | | | | | |
| R0110 | Technical Provisions calculated as a whole | | 0 | | | | 0 |
| R0120 | Best estimate | | 0 | | | | 0 |
| R0130 | Risk margin | | 0 | | | | 0 |
| R0200 | **Technical provisions - total** | 0 | 0 | 21,696 | | | 21,696 |

**S.23.01.01**

## Own Funds

| | Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35 | Total | Tier 1 unrestricted | Tier 1 restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| R0010 | Ordinary share capital (gross of own shares) | 0 | 0 | | 0 | |
| R0030 | Share premium account related to ordinary share capital | 0 | 0 | | 0 | |
| R0040 | Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings | 0 | 0 | | 0 | |
| R0050 | Subordinated mutual member accounts | 0 | | 0 | 0 | 0 |
| R0070 | Surplus funds | 0 | 0 | | | |
| R0090 | Preference shares | 0 | | 0 | 0 | 0 |
| R0110 | Share premium account related to preference shares | 0 | | 0 | 0 | 0 |
| R0130 | Reconciliation reserve | 30,237 | 30,237 | | | |
| R0140 | Subordinated liabilities | 0 | | 0 | 0 | 0 |
| R0160 | An amount equal to the value of net deferred tax assets | 0 | | | | 0 |
| R0180 | Other own fund items approved by the supervisory authority as basic own funds not specified above | 0 | 0 | 0 | 0 | 0 |
| R0220 | **Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds** | 0 | | | | |
| R0230 | **Deductions for participations in financial and credit institutions** | 0 | 0 | 0 | 0 | |
| R0290 | **Total basic own funds after deductions** | 30,237 | 30,237 | 0 | 0 | 0 |
| | **Ancillary own funds** | | | | | |
| R0300 | Unpaid and uncalled ordinary share capital callable on demand | 0 | | | | |
| R0310 | Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand | 0 | | | | |
| R0320 | Unpaid and uncalled preference shares callable on demand | 0 | | | | |
| R0330 | A legally binding commitment to subscribe and pay for subordinated liabilities on demand | 0 | | | | |
| R0340 | Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | 0 | | | | |
| R0350 | Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | 0 | | | | |
| R0360 | Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0 | | | | |
| R0370 | Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0 | | | | |
| R0390 | Other ancillary own funds | 0 | | | | |
| R0400 | **Total ancillary own funds** | 0 | | | 0 | 0 |
| | **Available and eligible own funds** | | | | | |
| R0500 | Total available own funds to meet the SCR | 30,237 | 30,237 | 0 | 0 | 0 |
| R0510 | Total available own funds to meet the MCR | 30,237 | 30,237 | 0 | 0 | |
| R0540 | Total eligible own funds to meet the SCR | 30,237 | 30,237 | 0 | 0 | 0 |
| R0550 | Total eligible own funds to meet the MCR | 30,237 | 30,237 | 0 | 0 | |
| R0580 | **SCR** | 18,825 | | | | |
| R0600 | **MCR** | 4,706 | | | | |
| R0620 | **Ratio of Eligible own funds to SCR** | 160.62% | | | | |
| R0640 | **Ratio of Eligible own funds to MCR** | 642.48% | | | | |

| | **Reconcilliation reserve** | C0060 |
|---|---|---|
| R0700 | Excess of assets over liabilities | 30,237 |
| R0710 | Own shares (held directly and indirectly) | 0 |
| R0720 | Foreseeable dividends, distributions and charges | |
| R0730 | Other basic own fund items | 0 |
| R0740 | Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | |
| R0760 | **Reconciliation reserve** | 30,237 |
| | **Expected profits** | |
| R0770 | Expected profits included in future premiums (EPIFP) - Life business | 43,047 |
| R0780 | Expected profits included in future premiums (EPIFP) - Non- life business | |
| R0790 | **Total Expected profits included in future premiums (EPIFP)** | 43,047 |

**S.25.01.21**

## Solvency Capital Requirement - for undertakings on Standard Formula

| | | Gross solvency capital requirement | USP | Simplifications |
|---|---|---|---|---|
| | | C0110 | C0090 | C0120 |
| R0010 | Market risk | 6,849 | | |
| R0020 | Counterparty default risk | 670 | | |
| R0030 | Life underwriting risk | 0 | | |
| R0040 | Health underwriting risk | 31,340 | | |
| R0050 | Non-life underwriting risk | 0 | | |
| R0060 | Diversification | -4,953 | | |
| R0070 | Intangible asset risk | 0 | | |
| R0100 | **Basic Solvency Capital Requirement** | 33,907 | | |

| | | |
|---|---|---|
| | **Calculation of Solvency Capital Requirement** | C0100 |
| R0130 | Operational risk | 457 |
| R0140 | Loss-absorbing capacity of technical provisions | -15,538 |
| R0150 | Loss-absorbing capacity of deferred taxes | |
| R0160 | Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | 0 |
| R0200 | **Solvency Capital Requirement excluding capital add-on** | 18,825 |
| R0210 | Capital add-ons already set | 0 |
| R0220 | **Solvency capital requirement** | 18,825 |
| | **Other information on SCR** | |
| R0400 | Capital requirement for duration-based equity risk sub-module | 0 |
| R0410 | Total amount of Notional Solvency Capital Requirements for remaining part | 0 |
| R0420 | Total amount of Notional Solvency Capital Requirements for ring fenced funds | 0 |
| R0430 | Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios | 0 |
| R0440 | Diversification effects due to RFF nSCR aggregation for article 304 | 0 |
| | **Approach to tax rate** | C0109 |
| R0590 | Approach based on average tax rate | 0 |

| | | LAC DT |
|---|---|---|
| | **Calculation of loss absorbing capacity of deferred taxes** | C0130 |
| R0640 | LAC DT | |
| R0650 | LAC DT justified by reversion of deferred tax liabilities | 0 |
| R0660 | LAC DT justified by reference to probable future taxable economic profit | 0 |
| R0670 | LAC DT justified by carry back, current year | 0 |
| R0680 | LAC DT justified by carry back, future years | 0 |
| R0690 | Maximum LAC DT | 0 |

**USP Key**

**For life underwriting risk:**
1 - Increase in the amount of annuity benefits
9 - None

**For health underwriting risk:**
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

**For non-life underwriting risk:**
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

**S.28.01.01**

## Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

| | Linear formula component for non-life insurance and reinsurance obligations | C0010 |
|---|---|---|
| R0010 | $MCR_{NL}$ Result | 0 |

| | | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months |
|---|---|---|---|
| | | C0020 | C0030 |
| R0020 | Medical expense insurance and proportional reinsurance | | |
| R0030 | Income protection insurance and proportional reinsurance | | |
| R0040 | Workers' compensation insurance and proportional reinsurance | | |
| R0050 | Motor vehicle liability insurance and proportional reinsurance | | |
| R0060 | Other motor insurance and proportional reinsurance | | |
| R0070 | Marine, aviation and transport insurance and proportional reinsurance | | |
| R0080 | Fire and other damage to property insurance and proportional reinsurance | | |
| R0090 | General liability insurance and proportional reinsurance | | |
| R0100 | Credit and suretyship insurance and proportional reinsurance | | |
| R0110 | Legal expenses insurance and proportional reinsurance | | |
| R0120 | Assistance and proportional reinsurance | | |
| R0130 | Miscellaneous financial loss insurance and proportional reinsurance | | |
| R0140 | Non-proportional health reinsurance | | |
| R0150 | Non-proportional casualty reinsurance | | |
| R0160 | Non-proportional marine, aviation and transport reinsurance | | |
| R0170 | Non-proportional property reinsurance | | |

| | Linear formula component for life insurance and reinsurance obligations | C0040 |
|---|---|---|
| R0200 | $MCR_{L}$ Result | 427 |

| | | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance/SPV) total capital at risk |
|---|---|---|---|
| | | C0050 | C0060 |
| R0210 | Obligations with profit participation - guaranteed benefits | | |
| R0220 | Obligations with profit participation - future discretionary benefits | | |
| R0230 | Index-linked and unit-linked insurance obligations | | |
| R0240 | Other life (re)insurance and health (re)insurance obligations | 13,168 | |
| R0250 | Total capital at risk for all life (re)insurance obligations | | 214,296 |

| | Overall MCR calculation | C0070 |
|---|---|---|
| R0300 | Linear MCR | 427 |
| R0310 | SCR | 18,825 |
| R0320 | MCR cap | 8,471 |
| R0330 | MCR floor | 4,706 |
| R0340 | Combined MCR | 4,706 |
| R0350 | Absolute floor of the MCR | 3,126 |
| R0400 | **Minimum Capital Requirement** | 4,706 |

# Solvency and Financial Condition Report
# 2021

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BRITISH FRIENDLY

It feels good to be covered